South Eastern Europe and Mediterranean Emerging Market Economies
Weekly Report

30 August – 5 September 2016

NBG - Economic Analysis Division
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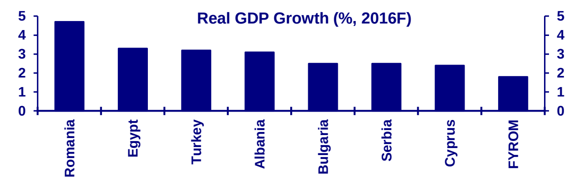
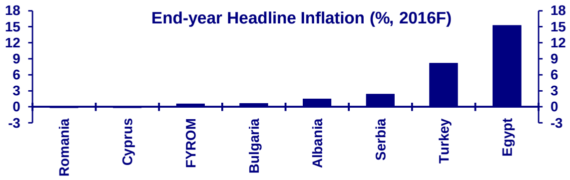
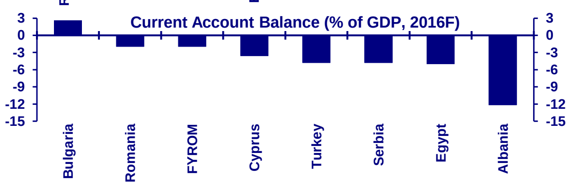
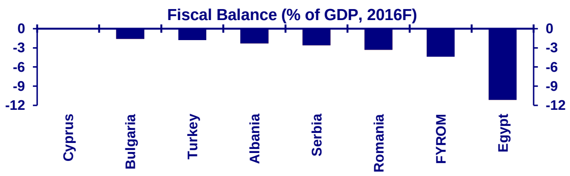




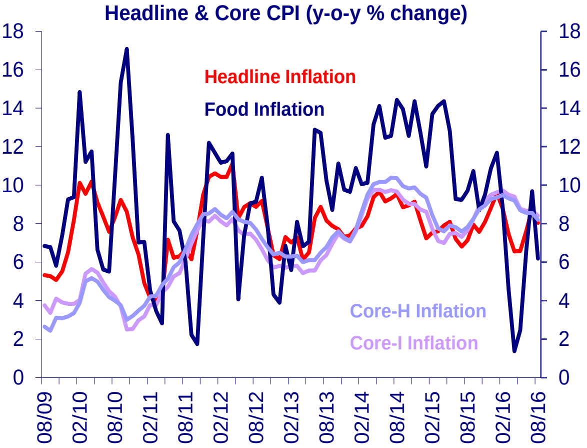




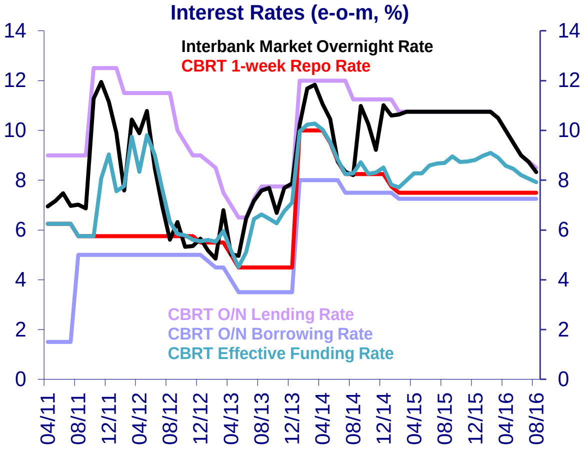
Turkey

BB+ / Baa3 / BBB- (S&P/ Moody's / Fitch)

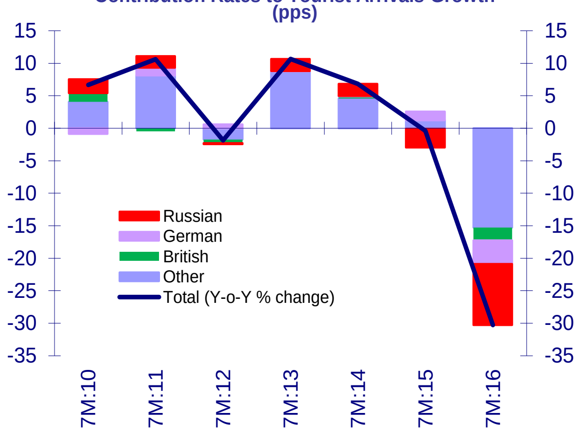
Headline & Core CPI (y-o-y % change)



Interest Rates (e-o-m, %)



Contribution Rates to Tourist Arrivals Growth (pps)



	5 Sep.	3-M F	6-M F	12-M F
1-m TRIBOR (%)	8.9	9.2	9.5	9.8
TRY/EUR	3.28	3.36	3.32	3.30
Sov. Spread (2019, bps)	258	250	230	200

	5 Sep.	1-W %	YTD %	2-Y %
ISE 100	77,792	2.2	6.3	-5.4

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	4.2	3.0	4.0	3.2	3.0
Inflation (eop, %)	7.4	8.2	8.8	8.2	7.5
Cur. Acct. Bal. (% GDP)	-7.7	-5.5	-4.5	-4.8	-5.2
Fiscal Bal. (% GDP)	-1.2	-1.3	-1.2	-1.8	-2.0

Headline inflation declined to 8.0% y-o-y in August from a 6-month high of 8.8% in July, due to favourable food prices and lower core inflation. Food inflation (comprising 24.2% of the CPI basket) declined to 6.2% y-o-y in August from a 6-month high of 9.7% in July, on the back of a downside correction in volatile unprocessed food prices. Moreover, core inflation continued its downward trend, which started in March following seven consecutive months of increase. Specifically, the CBRT's favourite core inflation measures, i.e., CPI-H and CPI-I slowed to 11-month lows of 8.2% y-o-y and 8.4% y-o-y, respectively, in August from 8.6% and 8.7% in July, likely linked to a milder depreciation of the domestic currency (the weakening of the TRY against the basket of "50%*EUR/TRY + 50%*USD/TRY" eased to -3.7% y-o-y in August from -9.4% y-o-y in July).

Looking ahead, we expect headline inflation to end the year slightly above its August level, as increasing inflationary pressures should be contained by the fading impact of the exchange rate depreciation and weaker domestic demand. Inflationary pressures in 9-12M:16 should result from: i) a gradual normalization in food prices and the resumption of agricultural exports to Russia (bringing cumulative food inflation from 1.8% in 8M:16 to 8.0% in FY:16); ii) less favourable global oil prices (we project the price of Brent to increase by c. 9.0% y-o-y in 9-12M:16 following a decline of 17.5% y-o-y in 8M:16 in TRY terms); and iii) second-round effects from the 30% hike in the minimum wage from January 1st. Overall, we see headline inflation ending the year at 8.2% y-o-y, below the end-2015 outcome of 8.8% but above the upper bound of the CBRT's target range of 3.0%-7.0% and the CBRT's end-year forecast of 7.5%.

In view of the CBRT easing bias, the continued improvement in core inflation, and the dissipating worries over the extent of monetary policy tightening by the Fed, we expect the CBRT to proceed with a further "measured" cut of the upper bound of the interest rate corridor (overnight lending rate) by 25 bps to 8.25% at its MPC meeting on September 22nd.

Tourist arrivals declined sharply by 30.3% y-o-y to 14.2m in the first seven months of the year, due to heightening security concerns and persisting tensions with Russia. The decline was mainly driven by Russia, the second largest source country (c. 10.0% of total arrivals in 2015), whose arrivals were down sharply by 89.2% y-o-y to 0.2mn in 7M:16 (shaving 9.4 pps off overall arrivals growth), mainly reflecting the Russian sanctions after Turkey's downing of a Russian military jet in late-November. Equally worrying, arrivals from other countries also declined sharply (by 23.3% y-o-y to 14.0mn in 7M:16), reflecting heightened domestic security concerns. Indeed, 79 terrorist attacks have been perpetrated since July 2015, killing over 500 people and wounding almost 2,000, following the Government's involvement in the war against the ISIS and the collapse of a 2-year ceasefire with the Kurdistan Workers Party militant group.

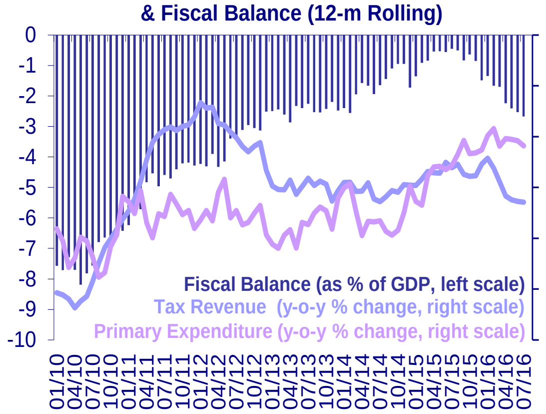
Looking ahead, we expect tourist arrivals to continue to decline during the rest of the year, albeit at a slower pace, supported by the gradual return of Russian tourists, in view of the imminent normalization of Russia-Turkey relations. Note that Presidents Erdogan and Putin met in St. Petersburg on August 9th, with a view to restoring bilateral relations. Nevertheless, we expect tourist arrivals to post their sharpest decline since 1999 this year (down by around 28.0% to an 8-year low of 26.1mn). As a result and in view of the stabilisation of spending per tourist in H1:16, we expect tourist receipts -- a major source of foreign currency -- to decline by USD 7.4bn y-o-y (1.2 pps of GDP y-o-y) to a 9-year low of USD 19.2bn (2.5 pps of GDP or 20.7% of end-2015 stock of FX reserves).

Romania

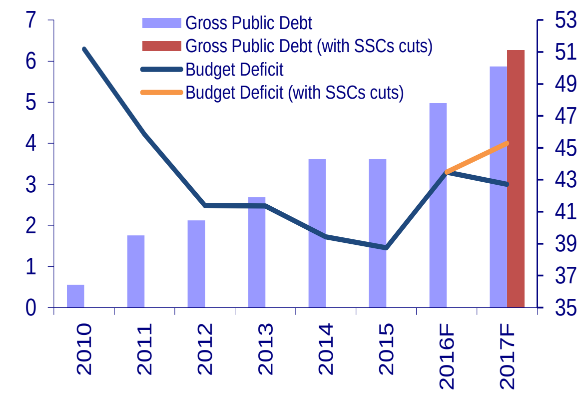
BBB- / Baa3 / BBB- (S&P / Moody's / Fitch)

Consolidated Budget (% of GDP)	2015 Outcome	7M:15	7M:16	2016 Revised Budget	2016 NBG Forecast
Total Revenue	32.8	18.6	17.4	31.5	31.5
Tax Revenue	27.5	16.0	15.5	26.8	26.8
o/w PIT/CIT	5.7	3.5	3.5	5.7	5.7
VAT	8.0	4.8	4.1	7.1	7.1
Excise Duties	3.6	2.0	2.0	3.7	3.7
Soc. Sec. Contr.	8.1	4.6	4.7	8.2	8.2
Non-Tax Revenue	5.3	2.6	1.9	4.7	4.7
Total Expenditure	34.2	17.6	17.7	34.3	34.8
Current Spending	28.1	15.8	16.0	29.4	29.9
o/w Wages	7.3	4.1	4.4	7.9	8.1
Social Spending	10.7	6.1	6.3	10.8	11.1
Other Transfers	1.6	0.9	0.7	1.6	1.6
Goods & Services	5.7	2.8	2.7	5.8	5.8
Interest Paym.	1.3	1.0	1.0	1.5	1.5
Capital Expend.	6.1	1.8	1.7	4.9	4.9
Fiscal Balance	-1.5	1.0	-0.2	-2.8	-3.3

Tax Revenue, Primary Expenditure & Fiscal Balance (12-m Rolling)



Budget Deficit & Gross Public Debt (% of GDP)



	5 Sep.	3-M F	6-M F	12-M F
1-m ROBOR (%)	0.6	0.9	1.2	1.5
RON/EUR	4.45	4.48	4.49	4.50
Sov. Spread (2024, bps)	187	180	170	150

	5 Sep.	1-W %	YTD %	2-Y %
BET-BK	1,316	0.9	-1.9	0.7

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	3.5	3.0	3.8	4.7	3.5
Inflation (eop, %)	1.6	0.8	-0.9	-0.2	2.0
Cur. Acct. Bal. (% GDP)	-1.1	-0.5	-1.1	-2.0	-2.8
Fiscal Bal. (% GDP)	-2.5	-1.7	-1.5	-3.3	-3.0

The 12-month rolling budget deficit widened markedly to 2.7% of GDP in July from 1.5% in December. The consolidated budget turned to a deficit of 0.2% of GDP in 7M:16 from a surplus of 1.0% in 7M:15. Specifically, tax revenue weakened in 7M:16 (by 0.5 pps of GDP y-o-y), on the back of sharp tax cuts (the VAT rate on food and non-food items was reduced by 4 pps to 20% and 15 pps to 9%, respectively, in January 2016 and June 2015). Non-tax revenue also declined sharply in 5M:16 (by 0.7 pps of GDP y-o-y), due to lower grants from the EU.

On the other side of the budget, current spending increased slightly in 7M:16 (by 0.2 pps of GDP y-o-y). Indeed, cuts in discretionary transfers and public consumption were more than offset by higher personnel expenses and social spending, on the back of a looser incomes policy. Recall that, following a 10.0% hike in public sector wages at end-2015, targeted increases in wages in the broader public sector were made in January. At the same time, pensions were raised (by 5.0%) and benefits were increased. In addition, the minimum wage was raised by 19% in May (to RON 1,250 or EUR 280), weighing further on outlays for social benefits. Note that the rise in personnel expenses would have been larger in 7M:16 had a court-mandated reinstatement of certain wages in the public sector not taken place in March 2015 (0.2 pps of GDP), creating a negative base effect.

The fiscal performance is set to deteriorate further during the remainder of the year, pushing the FY:16 budget deficit above its target of 2.8% of GDP. In our view, the budget poses significant challenges in its implementation. The main concern is the ongoing easing in incomes policy, the cost of which still appears to be understated in the revised budget. Indeed, personnel expenses and social spending are already up 0.5 pps of GDP y-o-y in 7M:16. More worryingly, the authorities proceeded with further targeted hikes in public sector wages and benefits in August, which imply an additional cost of c. 0.3 pps of GDP to the FY:16 budget. Overall, we see current spending overshooting its FY:16 budget target by 0.5 pps of GDP.

At the same time, we expect tax revenue to comfortably meet its target. Indeed, despite large tax cuts (also including the reduction in the dividend tax rate by 9 pps to 5% and higher personal tax deductions), we expect tax collection to remain on track, reflecting strong second-round effects of the tax cuts on consumption and employment and improved tax compliance.

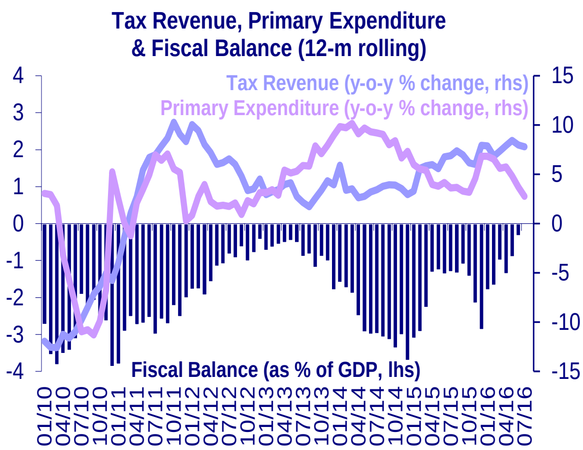
All said, unless corrective measures are adopted, the FY:16 budget deficit could widen to 3.3% of GDP from 1.5% in FY:15, surpassing the EU threshold (3.0%). However, with general elections due in December, it is unlikely that the Government will reverse policy.

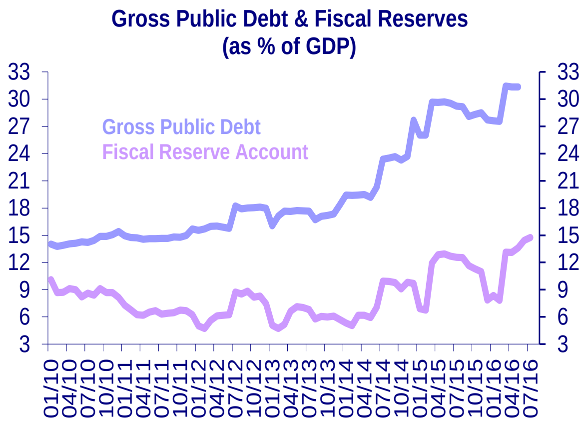
Proposed cuts in social security contributions (SSCs) would push the budget deficit to 4.0% of GDP in FY:17. Recall that the Senate recently approved a 2 pp cut in SSCs for employers and a 3 pp cut in SSCs for employees, effective from January 2017, with the lower house of the Parliament, however, having the final say on the issue (a vote is expected later this month). According to the authorities, the cost of the measure is estimated at c. 1.0% of GDP. Note that Parliament has already approved a 1 pp cut in the VAT rate to 19% in 2017, as well as reductions in excise duties and the abolition of the special property tax. In the event the cuts in SSCs are endorsed, we see the budget deficit widening to 4.0% in FY:17, with the gross public debt rising to 51.0% of GDP from our forecast of 47.7% for FY:16, putting at risk the country's economic and financial stability. All said, the Government that emerges from the elections will need to take corrective measures so as to bring the budget deficit into line with EU requirements.

Bulgaria

BB+ / Baa2 / BBB- (S&P / Moody's / Fitch)

Consolidated Budget (% of GDP)	2015 Outcome	7M:15	7M:16	2016 Budget	2016 NBG Forecast
Total Revenue	37.3	22.0	23.2	37.2	37.6
Tax Revenue	28.8	16.7	17.8	29.3	29.7
Non-Tax Rev.	4.3	2.7	3.0	5.0	5.0
Grants	4.2	2.6	2.4	2.9	2.9
Total Expenditure	40.2	21.1	19.5	39.2	39.2
Current Spending	32.3	18.3	18.3	32.3	32.3
o/w Wages	5.4	3.0	3.1	5.4	5.4
Goods & Services	5.2	2.8	2.7	5.4	5.2
Subsidies	1.9	1.1	1.0	1.6	1.8
Social Spending	16.1	9.3	9.4	16.2	16.2
Interest Payments	0.8	0.5	0.6	0.9	0.9
Capital Expend.	7.9	2.8	1.2	6.9	6.9
Fiscal Balance	-2.9	0.9	3.7	-2.0	-1.6





	5 Sep.	3-M F	6-M F	12-M F
1-m SOFIBOR (%)	0.0	0.1	0.1	0.1
BGN/EUR	1.96	1.96	1.96	1.96
Sov. Spread (2022, bps)	137	136	135	130

	5 Sep.	1-W %	YTD %	2-Y %
SOFIX	472	0.1	2.4	-15.2

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	1.3	1.5	3.0	2.5	2.2
Inflation (eop, %)	-1.6	-0.9	-0.4	0.7	1.4
Cur. Acct. Bal. (% GDP)	1.3	0.9	1.4	2.6	1.5
Fiscal Bal. (% GDP)	-1.8	-3.7	-2.9	-1.6	-1.2

Higher tax revenue and lower capital spending push the 12-month rolling budget into balance in July from a deficit of 2.9% of GDP at end-2015. In 7M:16, the consolidated budget surplus improved further by a sizeable 2.8 pps y-o-y to 3.7% of GDP. Specifically, tax revenue increased sharply in 7M:16 (by 1.1 pp of GDP y-o-y), reflecting the hike in the excise duty on tobacco and fuel, the increase in the presumptive insurance income threshold, strong employment growth, as well as base effects from changes in the tax calendar. Non-tax revenue was also up slightly in 7M:16 (by 0.3 pps of GDP y-o-y), almost offsetting the decline in grants from the EU (by 0.2 pps of GDP y-o-y, see below). At the same time, budget spending declined sharply (by 1.6 pps of GDP y-o-y in 7M:16), but this was solely due to lower capital spending, which may subsequently reverse.

Although the fiscal performance is set to deteriorate during the remainder of the year, the FY:16 budget should overperform its deficit target of 2.0% of GDP. Tax revenue should weaken during the remainder of the year, reflecting "pay-back" for the positive base effects of 7M:16. Nevertheless, we expect tax revenue to overperform its FY:16 target, in view of the y-t-d performance (up 9.1% y-o-y in 7M:16 against a FY:16 target of 4.6% and a projected FY:16 nominal GDP growth of c. 3.0%) and improving tax compliance as a result of the measures taken (enforced collection of overdue liabilities, reverse VAT charging on cereals, and intensified tax inspections).

On the other side of the budget, the FY:16 current spending target (up 3.2%) appears attainable, in view of the y-t-d performance (up 3.0% y-o-y in 7M:16). Indeed, despite the hike in the minimum wage (by 10.5% to EUR 215 in January) and pensions (by 2.5% in July), social spending should remain contained, in view of tighter means testing and the rise in the retirement age (by 2 months). At the same time, the cut in subsidies is unlikely to be as large as envisaged in the budget, following the granting of fuel vouchers to agricultural producers; nevertheless, we expect this slippage to be offset by lower-than-budgeted public consumption.

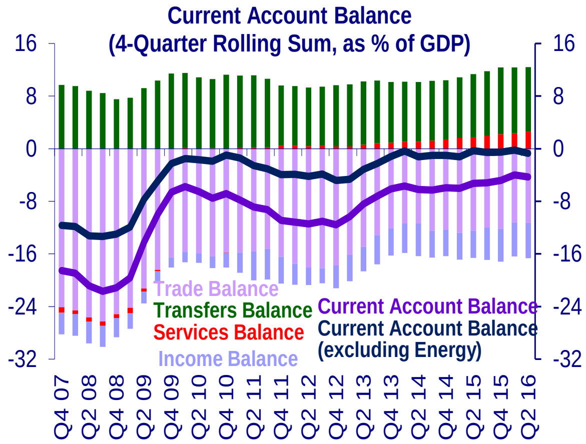
Public investment is also expected to accelerate during the remainder of the year, in view, *inter alia*, of the large discrepancy between the y-t-d absorption of EU funds and the execution of the investment programme (1.4 pps of GDP). Note that EU fund allocations amount to 2.9% of GDP in FY:16, significantly lower compared with FY:15 (4.2%), as the authorities forfeited unused funding allocated during 2007-13.

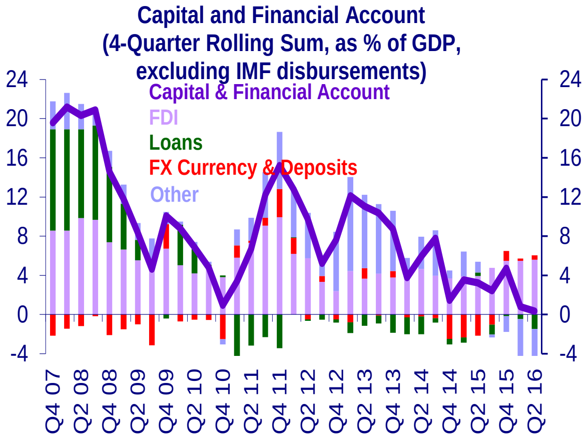
All said, we see the budget deficit narrowing to 1.6% of GDP in FY:16 from 2.9% in FY:15, overperforming its target of 2.0%. Importantly, excluding receipts from the concession of Sofia and Plovdiv airports (expected in Q4:16 and projected at 0.7% of GDP), the envisaged fiscal consolidation should be smaller than suggested by headline figures (c. 0.6 pps of GDP).

Government allocates funds set aside for bank recapitalisations to the repayment of debt. Following the successful results of the stress test for banks, which showed no need for state support, the Government re-allocated the funds set aside for that purpose, worth EUR 1bn, to the repayment of the maturing 2017 Eurobond, worth EUR 0.95bn. Recall that the Treasury had raised EUR 2.0bn from international capital markets earlier in the year to build the liquidity buffer for banks and cover this year's budget deficit. All said, projecting sovereign funding needs at EUR 1.4bn (3.1% of GDP) in FY:16 and EUR 2.1bn (4.5% of GDP) in FY:17, we see gross public debt rising slightly to 32.5% of GDP in FY:17 from our forecast of 32.0% in FY:16 and the FY:15 outcome of 27.7%, still far below the EU-28 average (c. 85.0% of GDP).

Serbia

BB- / B1 / BB- (S&P / Moody's / Fitch)





External Financing (EUR bn)	2015	2016F
Financing Needs	5.1	4.8
Current Account Deficit	1.6	1.6
Amortisations + Other	3.5	3.2
Financing Sources	5.7	3.9
FDI	1.8	1.8
Loans & Other	3.9	2.1
External Financing Balance	0.6	-1.0
IMF	-0.1	0.0*
Change in FX Reserves	0.5	-1.0

* Assuming no disbursements from the IMF

	5 Sep.	3-M F	6-M F	12-M F
1-m BELIBOR (%)	3.3	3.4	3.5	3.8
RSD/EUR	123.2	125.1	125.4	125.7
Sov. Spread (2021, bps)	260	245	220	180

	5 Sep.	1-W %	YTD %	2-Y %
BELEX-15	629	1.1	-0.4	-0.7

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	2.6	-1.8	0.7	2.5	2.7
Inflation (eop, %)	2.2	1.7	1.5	2.4	2.8
Cur. Acct. Bal. (% GDP)	-6.1	-6.0	-4.8	-4.8	-5.0
Fiscal Bal. (% GDP)	-5.5	-6.6	-3.8	-2.6	-2.8

The IMF Executive Board completed the combined 4th and 5th reviews of the ongoing 3-year EUR 1.2bn precautionary SBA (3.6% of GDP). The Board commended Serbia's continued strong progress under the SBA, which was approved 1½ years ago. This is reflected in the faster-than-expected economic recovery, the fiscal overperformance and the substantial progress in the restructuring and resolution of (loss-making) state-owned companies (SOEs), as well as the completion of the first phase of public sector rightsizing in Q1:16. Nonetheless, it underlined that achieving high and sustainable growth and putting the country's high debt on a firm downward path will hinge on the full implementation of programme commitments. Note that, although the completion of the combined reviews enables the disbursement of EUR 147mn (0.4% of GDP), bringing total funds available to EUR 761.6mn (2.3% of GDP), the Serbian authorities intend to continue to treat the arrangement as precautionary.

The external adjustment reversed course in Q2:16, due to the increase in imports. The current account deficit (CAD) widened on an annual basis in Q2:16 -- for the first time since Q1:15 -- by 0.3 pps y-o-y to 1.2% of GDP, following a narrowing by 0.8 pps y-o-y in Q1:16 and 0.3 pps y-o-y per quarter in FY:15. This performance was largely driven by the widening in the trade deficit (by 0.1 pp of GDP y-o-y in Q2:16 after narrowing by 0.9 pps in Q1:16). This was largely attributed to the rebound in imports (up by an 11-quarter high of 9.1% y-o-y, in EUR terms, in Q2:16, against a weak 1.6% y-o-y in Q1:15). This rebound was due both to: i) less favourable global oil prices, prompting an easing in the decline of energy imports (to 17.1% y-o-y in Q2:16 from a sharp fall of 31.1% in Q1:16), shaving an estimated 0.2 pps of GDP from the CAD in Q2:16 against 0.4 pps in Q1:16; and ii) higher non-energy imports (up 12.1% y-o-y in Q2:16 from 7.6% in Q1:16), due to the recovery in consumption and higher investment-related imports.

The deterioration in the trade deficit was also reinforced by the moderation in exports (to a still strong 10.6% y-o-y in Q2:16 from 13.6% in Q1:16), reflecting a base effect from their surge since Q2:15, supported by the restoration of production and transportation, after a sharp flood-induced decline in 2014.

As a result, the 4-quarter rolling CAD reversed course in Q2:16, rising to 4.3% of GDP from a trough of 4.0% in Q1:16 -- a 14-year low -- yet still below the FY:15 outcome of 4.8%.

The capital and financial account (CFA) deteriorated in H1:16. The CFA, excluding the IMF, turned to a deficit of 2.1% of GDP in H1:16 from 2.3% of GDP, due to increasing uncertainty ahead of the April 24th elections and a base effect from large capital inflows following the approval of a precautionary SBA with the IMF in February 2015.

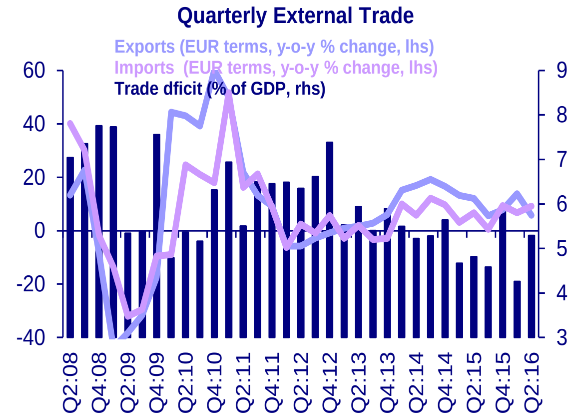
Reflecting the negative CAD and CFA developments in H1:16 and despite positive (net) errors & omissions (0.7% of GDP), the overall balance turned negative (minus EUR 1.2bn or -3.5% of GDP). As a result and including positive valuation effects, FX reserves declined by EUR 1.1bn or 3.2% of GDP since the beginning of the year to a still comfortable level of EUR 9.3bn (5.8 months of GNFS imports).

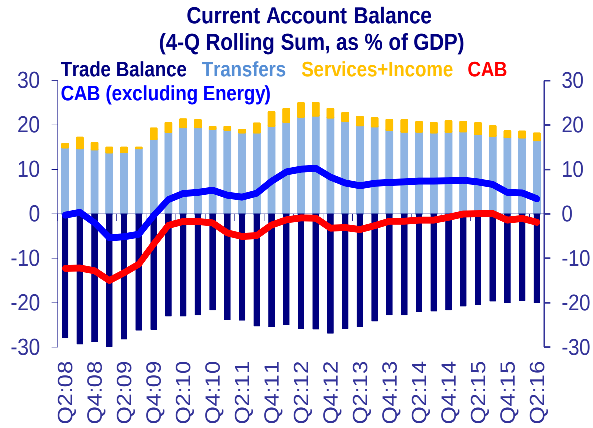
The CAD is set to remain on an upward trend in H2:16, ending 2016 at 4.8% of GDP, unchanged from FY:15. The expected CAD deterioration in H2:16 is attributed to a continued rebound in imports due to less favourable global oil prices, and the sustained recovery in consumption, as well as the continued moderation in exports.

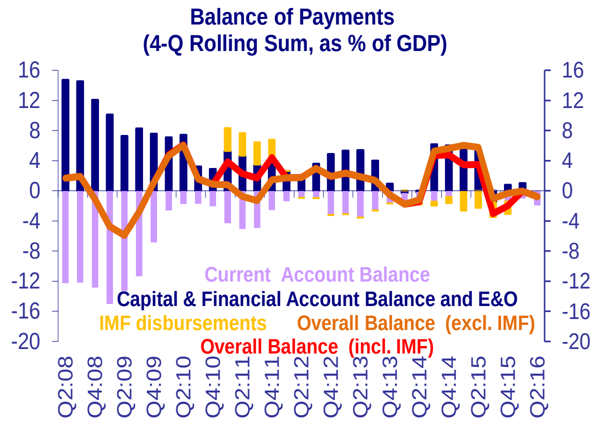
Regarding financing, assuming: i) FDI inflows of 2.7% of GDP in H2:16 (as in H1:16); and ii) zero capital inflows in H2:16 (against outflows of 4.1% of GDP in H1:16), underpinned by strengthening confidence after the formation of the new Cabinet and continued good relations with the IMF, we see an external financing gap of EUR 1.0bn (2.9% of GDP).

F.Y.R.O.M.

BB- / NR / BB (S&P / Moody's / Fitch)







	5 Sep.	3-M F	6-M F	12-M F
1-m SKIBOR (%)	1.8	1.8	1.8	1.8
MKD/EUR	61.3	61.3	61.3	61.3
Sov. Spread (2021, bps)	486	465	450	350

	5 Sep.	1-W %	YTD %	2-Y %
MBI 100	1,976	0.6	7,8	16.0

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	2.7	3.5	3.7	1.8	3.6
Inflation (eop, %)	1.4	-0.5	-0.3	0.6	1.3
Cur. Acct. Bal. (% GDP)	-1.6	-0.8	-1.4	-2.0	-2.5
Fiscal Bal. (% GDP)	-3.8	-4.2	-3.5	-4.2	-3.5

Early general elections to take place on December 11th, increasing optimism for an end to the political crisis. The leaders of VMRO-DPMNE, SDSM, DUI and DPA, agreed on August 31st to hold early elections on December 11th -- 15 months ahead of schedule -- thus increasing optimism for an end to the 2 year domestic political impasse. The agreement was reached after the fulfillment of two conditions of the July 2015 EU-brokered Przino deal: i) media reform, to reduce government influence; and ii) the conduct of a thorough review of the electoral roll. Recall that elections were postponed twice (on April 24th and June 5th) following a boycott threat by the main opposition party, SDSM (which was supported by the EU and the US), mainly on the grounds that the above-mentioned conditions were not met. Furthermore, in line with the Przino agreement, Parliament approved, on September 2nd (100 days before the elections), a transitional government, including SDSM ministers, set to prepare "*fair and credible*" elections.

The current account deficit (CAD) widened to 1.9% of GDP on a 12-month rolling basis in June (from 1.4% in December), mainly due to a sharp decline in private transfers. The CAD increased by 0.5 pps y-o-y to 1.9% of GDP in H1:16. The deterioration in H1:16 resulted from a sharp decline in private transfers (by 0.8 pps of GDP y-o-y), mainly due to large purchases of foreign currency by residents in early-Q2:16 (accounted as transfers' outflows by the Central Bank) when the political crisis was at its peak. Furthermore, the trade deficit widened slightly in H1:16 (by 0.1 pp of GDP y-o-y), in line with a sharp rise in investment-related imports. The increase in overall imports was, however, contained by a significant decline in imports of energy (by 0.8 pps of GDP y-o-y in H1:16), in line with global oil price developments. The widening in the CAD would have been even higher had the services surplus and official transfers not increased (each by 0.2 pps of GDP y-o-y).

The capital and financial account (CFA) surplus increased significantly, by 0.4 pps y-o-y to 0.8% of GDP in H1:16. The CFA surplus widened by 0.4 pps y-o-y to 0.8% of GDP in H1:16, due to a significant increase in (net) private sector borrowing in H1:16.

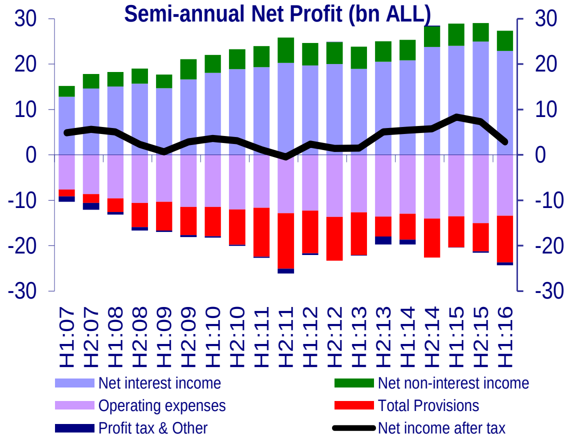
Reflecting CAB and CFA developments, as well as slight negative errors and omissions in H1:16, the overall balance recorded a deficit of EUR 120mn (or 1.2% of GDP). However, accounting for valuation effects, FX reserves declined by only EUR 103mn y-t-d to EUR 2.2bn in June, covering 4.3 months of imports of GNFS.

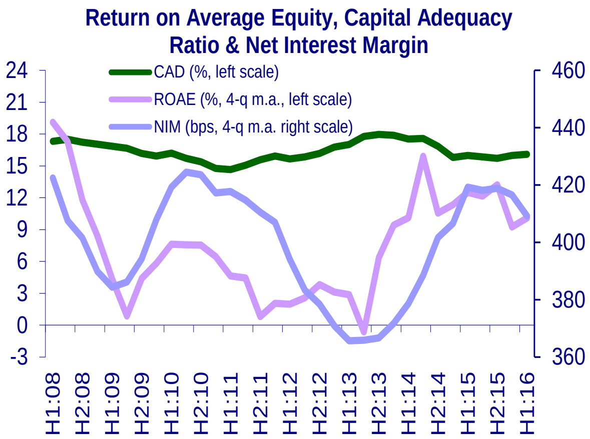
The CAD is set to widen to 2.0% of GDP in FY:16 (from 1.4% of GDP in FY:15), but its financing is not a cause for concern. Looking ahead, we expect the current account to be broadly balanced for the remainder of the year (a deficit of 0.1% of GDP in H2:16), as a gradual normalization in private transfers, following the agreement on legislative elections in December, should compensate for a widening in the trade deficit on the back of the expected increase in energy imports and continued strong growth in non-energy imports. We see the CAD widening for a second successive year, by 0.6 pps of GDP y-o-y to 2.0% of GDP in FY:16.

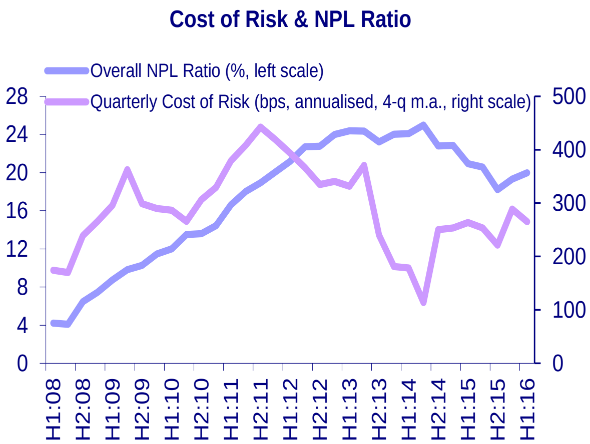
Importantly, with no debt repayments to the IMF this year (against 1.7% of GDP in FY:15), external financing needs should be comfortably covered in view of the issuance of a 7-year EUR 450mn Eurobond (4.7% of GDP) in July. Projecting that: i) net FDI inflows decline (to 1.6% of GDP from 1.9% of GDP in FY:15); and ii) the maturing external debt rollover rate deteriorates (93% from 99% in FY:15), we foresee FX reserves increasing significantly, by EUR 270mn y-o-y to EUR 2.5bn at end-2016 (covering 4.8 months of GNFS imports), following a decrease of EUR 175mn in 2015.

Albania

B+ / B1 / NR (S&P / Moody's / Fitch)







	5 Sep.	3-M F	6-M F	12-M F
1-m TRIBOR (mid, %)	1.7	2.2	2.2	2.2
ALL/EUR	137.3	138.5	138.7	139.0
Sov. Spread (bps)	408	430	400	350

	5 Sep.	1-W %	YTD %	2-Y %
Stock Market	- - -	- - -	- - -	- - -

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	1.0	1.8	2.8	3.1	3.2
Inflation (eop, %)	1.9	0.7	2.0	1.5	2.0
Cur. Acct. Bal. (% GDP)	-10.9	-12.9	-11.2	-12.2	-12.4
Fiscal Bal. (% GDP)	-5.0	-5.2	-3.6	-2.0	-2.0

The banking sector's bottom line weakened on an annual basis in H1:16, due to higher provisioning prompted by the bankruptcy of two large companies. Net profit (after tax) declined by 39.2% y-o-y to ALL 5.1bn (EUR 36.9mn or 0.3% of GDP) in H1:16. The poor performance was due to both higher provisions, prompted by the bankruptcy of two large corporates (see below), and weak pre-provision income. As a result, (annualised) ROAE and ROAA declined to 8.0% and 0.8%, respectively, in H1:16 from 14.2% and 1.3% in H1:15, and compared unfavourably with the corresponding levels of 13.2% and 1.2% in FY:15.

The cost of risk increased on an annual basis in H1:16. P/L provisions rose by 22.7% y-o-y in H1:16 (absorbing 58.1% of pre-provision earnings in H1:16, against just 41.7% in H1:15 and 42.1% in FY:15). This occurred due to the bankruptcy of Albania's only steelmaker, Turkish Kurum, as well as the (15% state-owned) oil refiner, ARMO. Note that the two bankruptcies prompted a rise in the NPL ratio to 20.0% in H1:16 from a trough of 18.2% at end-2015 (with Kurum's bankruptcy alone increasing the NPL ratio by 1.0 pp, according to the BoA) -- yet still well below its peak of 25.0% in Q3:14. Recall that the sharp decline in NPLs was supported by: i) the 2015 regulation mandating the obligatory write-off of loans held in "loss" category for more than three years; and ii) the Government's clearance of a large part of its accumulated arrears in 2014-15 (whose impact will also be visible in 2016, due to loan reclassification lags).

As a result, the (annualised) cost of risk increased by 55 bps y-o-y to 286 bps in H1:16, exceeding the FY:15 outcome of 223 bps.

Importantly, the capital adequacy ratio improved further to 16.1% -- exceeding the regulatory minimum (of 12%) -- following a slight fall in FY:15, due to the implementation, as of January 2015, of stricter capital adequacy requirements under Basel II.

Pre-provision income was weak in H1:16. Lower pre-provision earnings (down 12.0% y-o-y in H1:16 against rises of 32.1% in H1:15 and 10.8% in FY:15) reinforced the negative impact of higher provisions on the bottom line. This was due to weaker FX gains in H1:16 (just ⅔ of their level in H1:15), as well as the drop in net interest income (NII). Indeed, NII declined -- for the first time since H1:13 -- as higher average interest earning assets (up 2.9% y-o-y in H1:16) were more than offset by the compression of the NIM (down 20 bps y-o-y to 395 bps in H1:16 compared with 421 bps in FY:15).

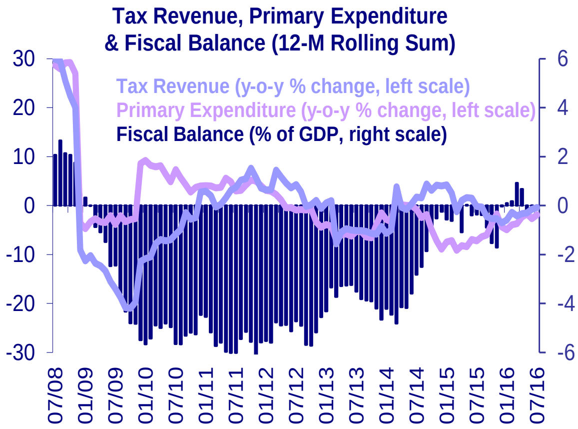
The decline in the NIM occurred due to both: i) the decline in non-core NIM, in line with the drop in government domestic debt yields (the 12-month T-bill rate declined by 1.9 pps y-o-y to a low of 1.6% in H1:16), due to reduced Government financing needs following the issuance of a Eurobond in November; and ii) the deterioration in the core NIM, on the back of the lagged repricing of loans (following a faster repricing of deposits so far). In fact, net interest income from customers and net interest income from T-bills and securities (accounting for a respective 55.4% and 44.6% of the NII) each declined by 2.0% y-o-y in H1:16.

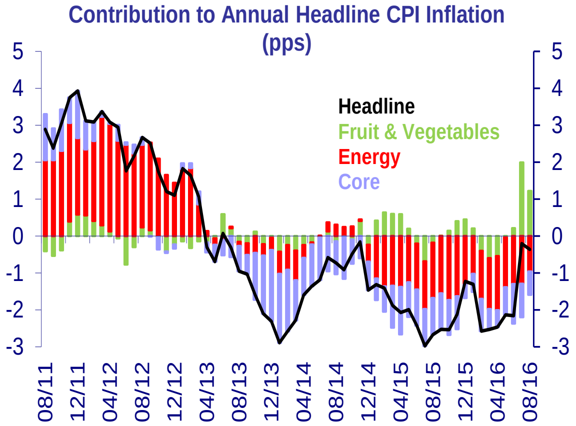
With operating income declining and operating expenses rising by 3.4% y-o-y in H1:16, the cost-to-income ratio rose by 2.9 pps y-o-y to 49.5% in H1:16 -- broadly unchanged from the FY:15 outcome of 49.2%.

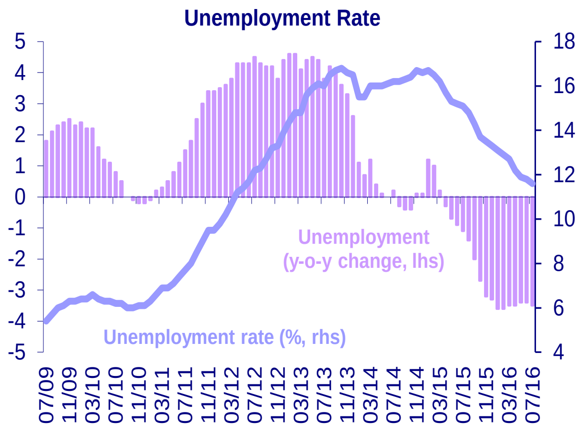
Banking sector profitability should strengthen, on an annual basis, in H2:16. Profitability is set to improve on an annual basis in H2:16, with the ROAE rising to an estimated 13.0% in H2:16 from 8.0% in H1:16. This should be primarily driven by lower NPL provisions, following a once-off increase in H1:16 due to the two large bankruptcies. Overall, despite the expected improvement in H2:16, we foresee FY:16 ROAE returning to single digits this year, after having been in double digits for two successive years.

Cyprus

BB- / B1 / B+ (S&P / Moody's / Fitch)







	5 Sep.	3-M F	6-M F	12-M F
1-m EURIBOR (%)	-0.37	-0.37	-0.37	-0.37
EUR/USD	1.11	1.10	1.08	1.05
Sov. Spread (2020. bps)	332	300	280	250

	5 Sep.	1-W %	YTD %	2-Y %
CSE Index	68	0.9	0.9	-40.9

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	-5.9	-2.5	1.6	2.4	2.1
Inflation (eop. %)	-2.3	-1.5	-1.2	-0.2	1.0
Cur. Acct. Bal. (% GDP)	-4.5	-4.6	-3.6	-3.6	-4.5
Fiscal Bal. (% GDP)	-4.7	-0.3	0.0	0.0	0.2

The fiscal performance remains solid, with a surplus of 0.2% of GDP in the first seven months of the year. The fiscal surplus narrowed slightly by 0.1 pp of GDP to 0.2% of GDP in 7M:16 due to weaker revenue (down 0.3 pps of GDP y-o-y). The latter was driven by a decrease in non-tax revenue (down 0.5 pps y-o-y), mainly reflecting a lower dividend payment by the Central Bank. Encouragingly, tax revenue rose significantly in 7M:16 (up 0.2 pps of GDP y-o-y), mainly due to higher direct taxes, more than compensating for the decline in VAT revenue. The positive fiscal performance in 7M:16 was supported by primary expenditure restraint (down 0.1 pp of GDP y-o-y), reflecting reduced personnel expenditure, as well as lower interest payments (down 0.1 pp of GDP y-o-y).

The FY:16 fiscal deficit is likely to overperform its revised target of 0.4% of GDP. The FY:16 fiscal balance could outperform its target again this year, in view of: i) a stronger-than-expected recovery in activity (we see FY:16 real GDP growth at 2.4%, significantly above the FY:15 outcome of 1.6%); and ii) continued spending restraint. Overall, we see the fiscal balance at 0% of GDP in FY:16, unchanged from the FY:15 outcome, but better than its target of -0.4% of GDP. This positive performance should help the public debt-to-GDP ratio to reverse course, for the first time in 8 years (to 99.8% in 2016 from 108.9% in 2015, supported by stronger GDP growth, lower funding costs, as well as higher inflation).

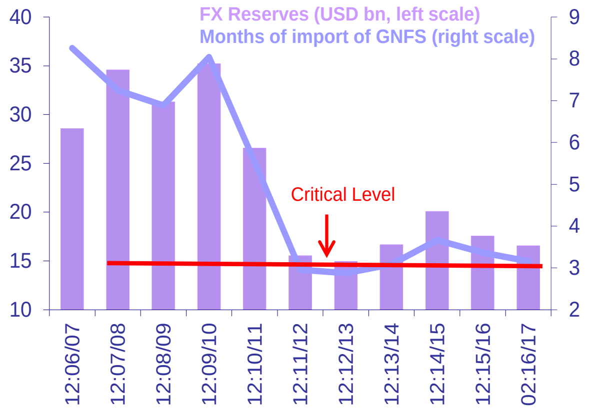
Headline inflation declined slightly to -0.4% y-o-y in August from -0.2% in July. The easing in headline inflation was driven by a correction in prices of volatile fruit and vegetables (up 35.4% y-o-y in August against an increase of 57.5% y-o-y in July), on the back of a better harvest. The easing was, however, tempered by higher core inflation and a milder decline in energy prices. Indeed, core inflation (excluding volatile food and energy prices and accounting for 87.6% of the CPI basket) accelerated to -0.7% y-o-y in August from -1.0% in July, mainly due to a lower decline in food prices, excluding fruit and vegetables -- down by 0.3% y-o-y in August compared with a decrease of 0.4% y-o-y in July, reflecting recovering private consumption. Moreover, energy prices (accounting for 9.0% of the CPI basket) declined by 10.7% y-o-y in August against a decline of 14.5% y-o-y in July, in line with developments in global oil prices (the price of Brent was down 2.8% y-o-y in EUR terms in August against a decrease of 18.5% y-o-y in July).

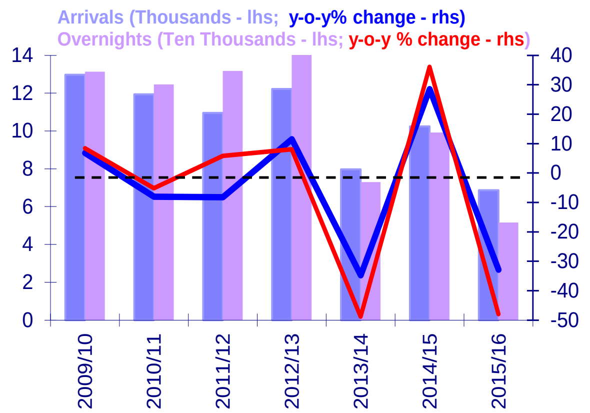
Deflation to continue for a fourth successive year in 2016, albeit at a significantly slower pace. Annual headline and core inflation should resume their upward trend in September, on the back of the ongoing recovery in domestic demand and less favourable fuel prices. Overall, we expect headline and core inflation to end the year at -0.2% and 1.0% y-o-y, respectively, up from -1.2% and -0.4% at end-2015.

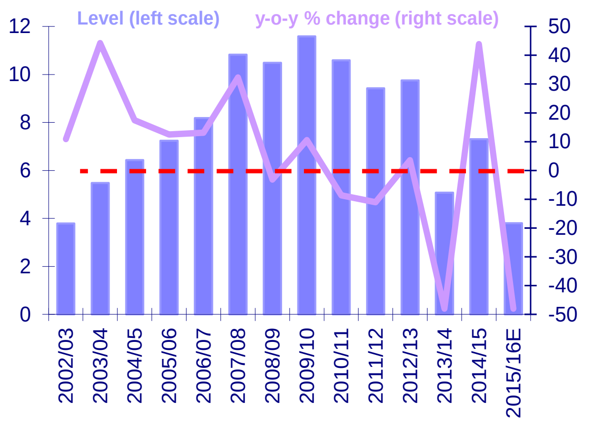
Unemployment reached a 4-year low of 11.6% in July. The unemployment rate declined for a twelfth consecutive month on an annual basis, to 11.6% in July. Importantly, the pace of decline in the unemployment rate averaged a high of 3.5 pps y-o-y in 7M:16 compared with a drop of 1.1 pp in FY:15. The improvement in 7M:16 is largely attributed to stronger activity in the labour-intensive tourism sector, accounting for c. 20.0% of total employment. Indeed, tourist arrivals rose by a sizeable 19.8% y-o-y to a record high of 1.7mn in 7M:16, following increases of 6.5% y-o-y in 7M:15 and 8.9% in FY:15. Going forward, in view of the y-t-d performance and recent trends in the tourism and construction sectors, we expect the unemployment rate to decline significantly to 11.2% in FY:16 from 15.0% in FY:15. We also project employment to increase by 2.0% in FY:16, following 4 successive years of decline (CAGR of -2.4%).

Egypt

B- / B3 / B (S&P / Moody's / Fitch)







	5 Sep.	3-M F	6-M F	12-M F
O/N Interbank Rate (%)	11.8	11.8	12.8	11.5
EGP/USD	8.88	10.5	10.5	11.5
Sov. Spread (2020. bps)	427	400	300	220

	5 Sep.	1-W %	YTD %	2-Y %
HERMES 100	739	2.9	17.4	-21.3

	12/13	13/14	14/15	15/16E	16/17F
Real GDP Growth (%)	2.1	2.1	4.2	3.0	4.5
Inflation (eop. %)	9.8	8.2	11.4	14.0	12.5
Cur. Acct. Bal. (% GDP)	-2.2	-0.9	-3.7	-6.0	-4.0
Fiscal Bal. (% GDP)	-13.0	-12.2	-11.5	-11.8	-10.5

FX reserves declined further in the first two months of 2016/17 (July-August 2016), highlighting the urgency of IFI assistance. FX reserves declined by USD 1bn to USD 16.6bn (down 5.6%) in the first 2 months of the new fiscal year (July-August 2016), following a drop of USD 2.5bn in FY:15/16. The decline in 2M:16/17 is attributed, *inter alia*, to the repayment of: i) a final USD 1.0bn in outstanding debt owed to Qatar; ii) an instalment of USD 0.7bn to the Paris Club; iii) the first tranche of a Libyan deposit at the CBE, worth USD 0.3bn; and iv) USD 0.2bn to clear the backlogs of the EGPC. The decline in 2M:16/17 would have been sharper had the UAE not offered a deposit worth USD 1.0bn to the CBE. Note that since the beginning of the political turmoil in January 2011, FX reserves have more than halved (down 54.0%), declining by USD 19.4bn from a high of USD 36bn (7.8 months of imports), despite the large external assistance of c. USD 40bn from oil-rich Arab countries and Turkey.

Looking ahead, in view of the country's current critical level of FX reserves (3.1 months of imports), the weakening sources of foreign currency (exports of goods, tourism, workers' remittances, and capital inflows), and the large external financing gap (estimated at USD 21bn for the next 3 fiscal years), the approval by the IMF Executive Board of the mid-August preliminary agreement for a USD 12bn (SDR 8.6bn or 422% of Egypt's quota) 3-year extended fund facility (EFF) is much needed. However, the approval is contingent upon the government securing USD 5-6bn in bilateral financing for the first year. Encouragingly, the IMF's mission chief for Egypt said that the Fund will be "*working together with the Egyptian authorities . . . to secure this financing from . . . bilateral accords*" and a part of the required bilateral support was provided recently by the UAE (USD 1bn deposit at the CBE).

Tourism revenue is estimated to have declined sharply by 48% to USD 3.8bn in FY:15/16. Tourist arrivals declined significantly by 32.9% to 6.9mn in FY:15/16 (July 2015-June 2016), reversing the sharp gain of 28.5% to 10.2mn in FY:14/15, reflecting easing security concerns and a calmer political climate following the election of President el-Sissi in May 2014, which led several European countries to remove travel bans imposed on Egypt. The negative FY:15/16 performance reflects not only a base effect, but also the resurgence of safety and security risks, following the terrorist bombing of a Russian passenger plane in the Sinai Peninsula last October and the hijacking of a domestic flight by a passenger wearing a fake suicide belt last March. The terrorist attack on the Russian plane led: i) Russia (the largest source country, which accounted for more than 30% of total tourists in 2014) to ban flights to Egypt; ii) the UK (the second largest source country, which accounted for more than 10% of total tourists in 2014) to suspend all flights to Egypt's tourism flagship city of Sharm el-Sheikh; and iii) several other countries to issue warnings against travel to Egypt. As a result, tourist arrivals in FY:15/16 were 53.0% below their peak of 14.7mn, reached on the eve of the January 2011 Revolution. More worrying, the number of nights spent by tourists in FY:15/16 (down 48.0% y-o-y) declined at a faster pace than arrivals during the same period, to 51.7mn.

In view of 9M:15/16 balance of payments' tourist receipts and full-year number of nights spent by tourists, we estimate the tourism sector -- one of the main sources of foreign currency along with workers' remittances, oil & gas exports, and Suez Canal -- to have: i) shaved off 0.8 pps from overall GDP growth in FY:15/16 (estimated at 3.0%) after having added 0.5 pps in FY:14/15; and ii) seen its contribution to FX reserves shrinking (by USD 3.5bn) to a 14-year low of USD 3.8bn in FY:15/16 from USD 7.3bn in FY:14/15.

FOREIGN EXCHANGE MARKETS, SEPTEMBER 5TH 2016

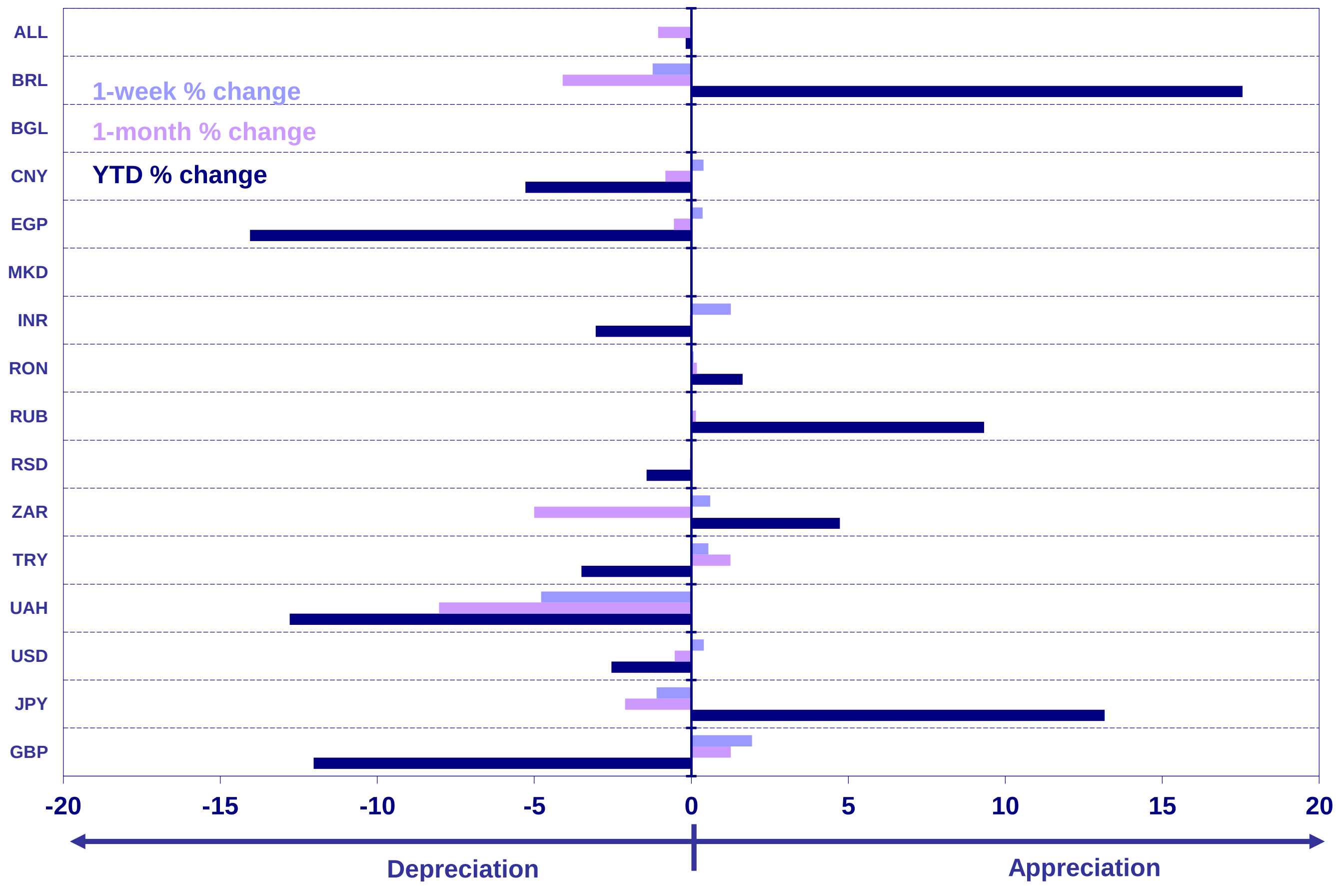
Against the EUR

	Currency	2016										2015	2014
		SPOT	1-week %change	1-month %change	YTD %change*	1-year %change	Year-Low	Year-High	3-month Forward rate**	6-month Forward rate**	12-month Forward rate**	% change*	% change*
Albania	ALL	137.3	0.0	-1.1	-0.2	1.6	135.9	139.5	137.7	137.5	136.3	2.0	0.1
Brazil	BRL	3.66	-1.2	-4.1	17.6	17.1	3.48	4.55	4.18	4.17	4.13	-25.2	1.0
Bulgaria	BGL	1.96	0.0	0.0	0.0	0.0	1.96	1.96	1.96	1.96	1.96	0.0	0.0
China	CNY	7.43	0.4	-0.8	-5.3	-4.5	6.99	7.56	7.66	7.66	7.66	6.7	10.8
Egypt	EGP	9.87	0.4	-0.6	-14.1	-12.1	8.26	10.23	- - -	- - -	- - -	2.1	10.6
FYROM	MKD	61.3	0.0	0.0	0.0	0.0	61.3	61.3	61.3	61.3	61.3	0.0	0.0
India	INR	74.1	1.3	0.0	-3.0	0.7	71.3	77.8	79.5	- - -	- - -	6.6	12.3
Romania	RON	4.45	0.1	0.2	1.6	-0.4	4.45	4.56	4.45	4.46	4.48	-0.8	-0.5
Russia	RUB	72.5	0.0	0.1	9.3	6.1	69.4	75.1	74.1	75.5	79.7	-15.1	-32.8
Serbia	RSD	123.2	0.0	0.0	-1.4	-2.5	121.6	124.3	123.7	124.2	- - -	-0.1	-5.6
S. Africa	ZAR	16.0	0.6	-5.0	4.7	-2.6	14.77	18.58	16.4	16.7	17.5	-16.6	3.0
Turkey	YTL	3.28	0.5	1.2	-3.5	3.1	3.12	3.41	3.36	3.43	3.60	-10.8	4.4
Ukraine	UAH	29.9	-4.8	-8.0	-12.8	-18.6	25.06	30.16	35.8	- - -	- - -	-27.5	-40.8
US	USD	1.11	0.4	-0.5	-2.5	0.2	1.1	1.2	1.12	1.12	1.13	11.4	13.6
JAPAN	JPY	115.3	-1.1	-2.1	13.2	15.5	109.6	132.3	115.3	115.2	115.2	11.0	-0.1
UK	GBP	0.84	1.9	1.3	-12.0	-12.7	0.7	0.9	0.84	0.84	0.84	5.3	7.0

* Appreciation (+) / Depreciation (-)

** Forward rates have been calculated using the uncovered interest rate parity for Brazil, China, Egypt, India and Ukraine

Currencies against the EUR (September 5th 2016)



MONEY MARKETS, SEPTEMBER 5TH 2016

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
O/N	1.3	14.1	0.0	2.1	- - -	11.8	- - -	- - -	0.5	10.5	- - -	8.7	7.5	16.3	- - -	0.4
T/N	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	0.5	10.5	3.0	- - -	8.0	- - -	- - -	- - -
S/W	1.4	14.1	0.0	2.4	-0.4	- - -	1.4	- - -	- - -	10.0	3.1	- - -	8.2	17.5	-0.4	0.4
1-Month	1.7	14.1	0.0	2.7	-0.4	- - -	1.8	6.9	0.6	10.9	3.3	8.9	7.7	18.8	-0.4	0.5
2-Month	- - -	14.1	0.1	- - -	-0.3	- - -	- - -	- - -	- - -	10.9	3.4	9.2	8.4	- - -	-0.3	0.7
3-Month	1.7	14.1	0.2	2.8	-0.3	- - -	2.1	7.0	0.8	11.0	3.6	9.4	8.4	19.6	-0.3	0.8
6-Month	1.8	13.7	0.4	2.9	-0.2	- - -	2.5	- - -	1.0	11.1	3.8	9.7	8.1	- - -	-0.2	1.2
1-Year	1.9	12.9	0.8	3.0	-0.1	- - -	3.0	- - -	1.1	11.1	- - -	9.8	9.2	- - -	-0.1	1.6

LOCAL DEBT MARKETS. SEPTEMBER 5TH 2016

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
3-Month	0.9	- - -	- - -	- - -	- - -	14.2	1.6	6.6	- - -	10.8	3.0	8.0	- - -	- - -	-0.8	0.3
6-Month	0.9	- - -	- - -	- - -	- - -	15.8	2.3	6.7	0.5	10.7	3.3	8.4	- - -	- - -	-0.7	0.5
12-Month	1.5	- - -	0.0	2.2	- - -	16.3	2.6	6.8	0.7	9.2	3.9	8.7	- - -	- - -	-0.6	0.6
2-Year	1.7	- - -	- - -	2.4	- - -	- - -	2.0	6.8	0.6	8.8	- - -	8.8	7.9	15.6	-0.6	0.8
3-Year	- - -	- - -	0.4	2.4	2.3	- - -	2.7	6.9	1.6	8.7	- - -	8.6	8.1	- - -	-0.6	0.9
5-Year	- - -	11.9	- - -	2.6	- - -	17.4	2.7	7.0	2.2	8.4	7.0	9.3	8.3	- - -	-0.5	1.2
7-Year	- - -	- - -	1.2	- - -	3.6	17.5	- - -	7.1	2.6	8.3	- - -	- - -	- - -	- - -	-0.4	1.5
10-Year	- - -	12.1	2.0	2.8	3.9	17.6	3.8	7.1	3.0	8.2	- - -	9.5	8.9	- - -	0.0	1.6
15-Year	- - -	- - -	- - -	- - -	- - -	- - -	4.3	7.3	- - -	8.3	- - -	- - -	9.2	- - -	0.1	- - -
25-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	9.5	- - -	- - -	- - -
30-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	7.3	- - -	- - -	- - -	- - -	9.5	- - -	0.5	2.3

*For Albania. FYROM and Ukraine primary market yields are reported

CORPORATE BONDS SUMMARY. SEPTEMBER 5TH 2016

		Currency	Rating S&P / Moody's	Maturity	Amount Outstanding (in million)	Bid Yield	Gov. Spread	Asset Swap Spread
Bulgaria	**Bulgaria Energy Hld 4.25% '18**	EUR	NA/NA	7/11/2018	500	2.6	328	289
	Bulgarian Telecom. 6.625% '18	EUR	B-/B1	15/11/2018	400	5.2	581	550
Cyprus	**Aroundtown Property 3% '21**	EUR	NA/NA	9/12/2021	200	2.2	278	233
Russia	**Gazprom 8.2% '19**	RUB	BB+/NA	9/4/2019	10,000	9.7	83	- - -
	Gazprom 8.9% '21	RUB	BB+/NA	26/1/2021	10,000	9.8	97	- - -
South Africa	**FirstRand Bank Ltd 4.25% '20**	USD	BBB-/Baa2	30/4/2020	500	3.6	242	248
	FirstRand Bank Ltd 2.25% '20	EUR	NA/NA	30/1/2020	100	0.9	155	112
Turkey	**Vakiflar Bankasi 3.5% '19**	EUR	NA/Baa3	17/6/2019	500	3.4	405	358
	Garanti Bankasi 3.38%'19	EUR	NA/Baa3	8/7/2019	500	3.0	367	320
	Arcelik AS 3.875% '21	EUR	BB+/NA	16/9/2021	350	3.6	434	372
	Turkiye Is Bankasi 6% '22	USD	NA/Ba3	24/10/2022	1,000	6.1	488	472

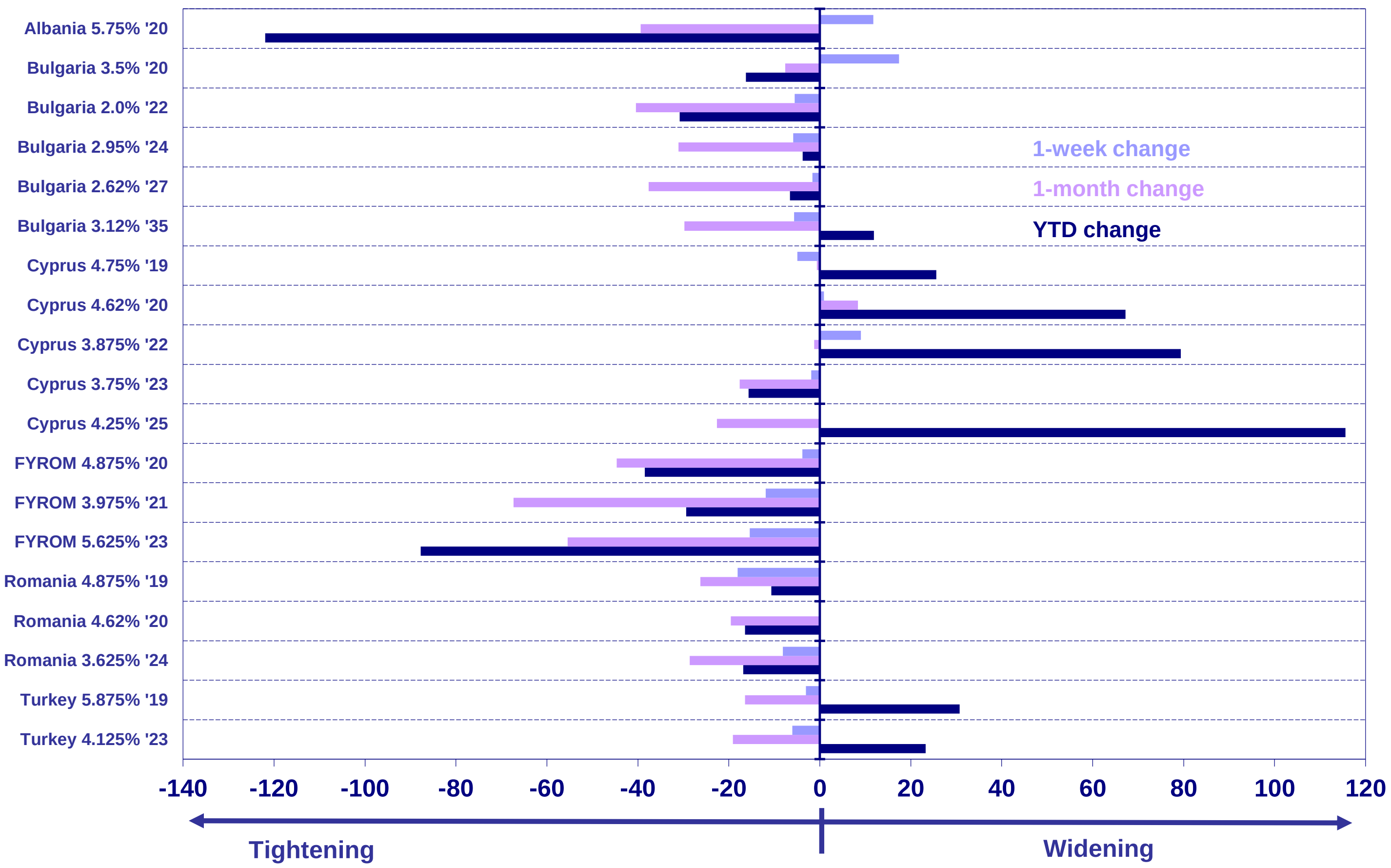
CREDIT DEFAULT SWAP SPREADS. SEPTEMBER 5TH 2016

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine
5-Year	- - -	252	139	98	267	488	- - -	134	107	211	231	241	246	- - -
10-Year	- - -	328	185	146	309	499	- - -	144	149	270	278	299	304	- - -

EUR-Denominated Sovereign Eurobond Summary. September 5th 2016

	Currency	Rating S&P / Moody's	Maturity	Amount Outstanding (in million)	Bid Yield	Gov. Spread	Asset Swap Spread
Albania 5.75% '20	EUR	B+/B1	12/11/2020	450	3.5	408	379
Bulgaria 3.5% '20	EUR	NA/NA	16/1/2020	145	0.6	125	83
Bulgaria 2.0% '22	EUR	BB+/Baa2	26/3/2022	1,250	0.9	137	101
Bulgaria 2.95% '24	EUR	BB+/Baa2	3/9/2024	1,493	1.6	187	153
Bulgaria 2.62% '27	EUR	BB+/Baa2	26/3/2027	1,000	2.0	219	168
Bulgaria 3.12% '35	EUR	BB+/Baa2	26/3/2035	900	2.9	263	224
Cyprus 4.75% '19	EUR	BB-/NA	25/6/2019	566	2.3	295	260
Cyprus 4.62% '20	EUR	BB-/B1	3/2/2020	770	2.7	332	296
Cyprus 3.875% '22	EUR	NA/B1	6/5/2022	1,000	3.5	394	355
Cyprus 3.75% '23	EUR	NA/NA	26/7/2023	1,000	3.6	396	350
Cyprus 4.25% '25	EUR	NA/B1	4/11/2025	1,000	3.9	409	369
FYROM 4.875% '20	EUR	BB-/NA	1/12/2020	270	4.2	478	434
FYROM 3.975% '21	EUR	BB-/NA	24/7/2021	500	4.1	486	529
FYROM 5.625% '23	EUR	BB-/NA	26/7/2023	450	4.7	516	482
Romania 4.875% '19	EUR	BBB-/Baa3	7/11/2019	1,500	0.2	88	48
Romania 4.62% '20	EUR	BBB-/Baa3	18/9/2020	2,000	0.4	98	59
Romania 3.625% '24	EUR	BBB-/Baa3	24/4/2024	1,250	1.6	187	160
Turkey 5.875% '19	EUR	NR/Baa3	11/4/2023	1,000	1.9	258	226
Turkey 4.125% '23	EUR	B+/B1	12/11/2020	450	2.9	331	300

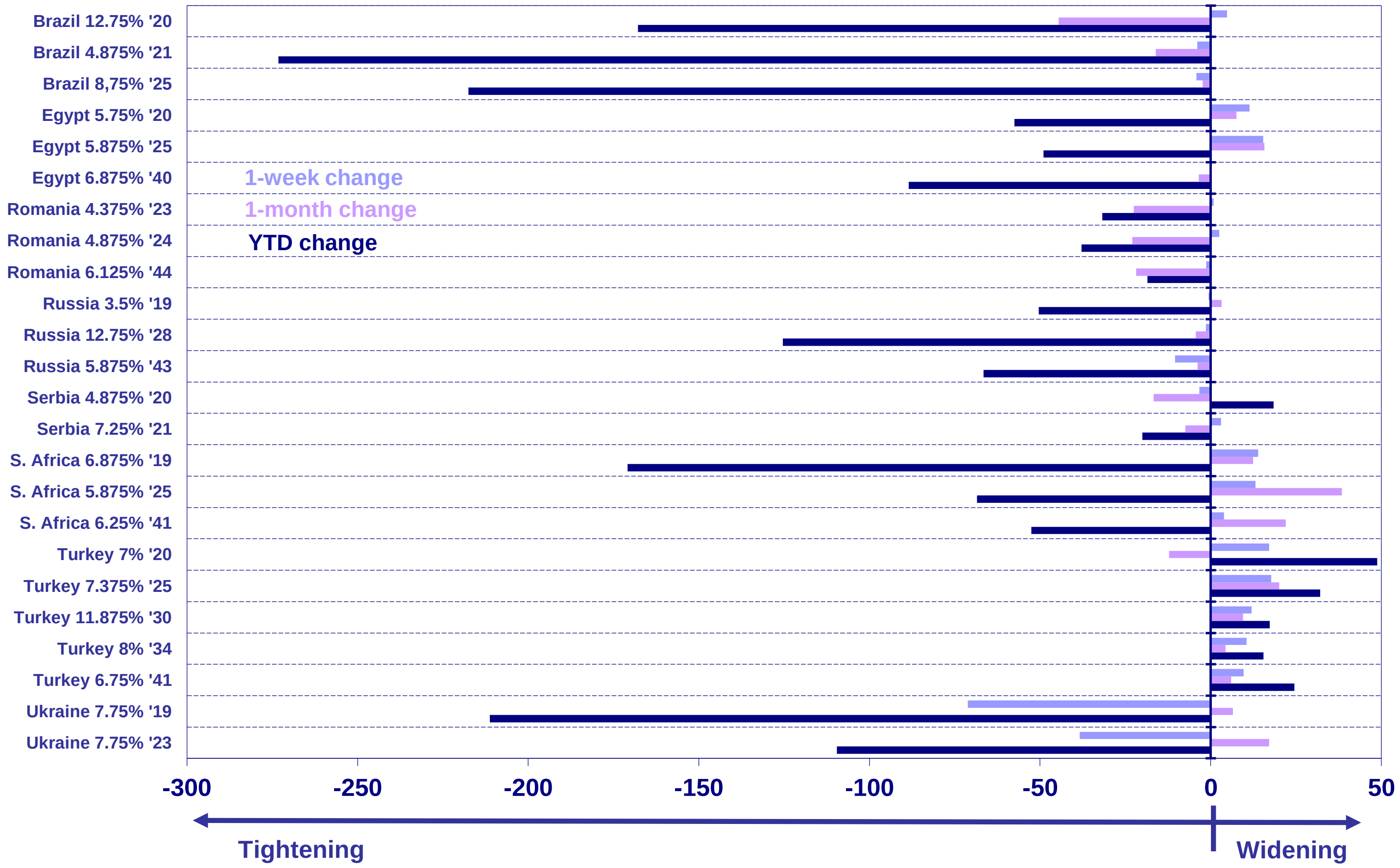
EUR-Denominated Eurobond Spreads (September 5th 2016)



USD-DENOMINATED SOVEREIGN EUROBOND SUMMARY. SEPTEMBER 5TH 2016

	Currency	Rating S&P / Moody's	Maturity	Amount Outstanding (in million)	Bid Yield	Gov. Spread	Asset Swap Spread
Brazil 12.75% '20	USD	BB/Ba2	15/1/2020	234	2.9	198	210
Brazil 4.875% '21	USD	BB/Ba2	22/1/2021	2,988	3.3	206	213
Brazil 8.75% '25	USD	BB/Ba2	4/2/2025	969	4.4	290	346
Egypt 5.75% '20	USD	B-/B3	11/6/2025	1,500	5.2	427	404
Egypt 5.875% '25	USD	B-/B3	30/4/2040	500	6.8	523	514
Egypt 6.875% '40	USD	BBB-/Baa3	22/8/2023	1,500	7.3	498	529
Romania 4.375% '23	USD	BBB-/Baa3	22/1/2024	1,000	2.8	128	150
Romania 4.875% '24	USD	BBB-/Baa3	22/1/2044	1,000	2.7	128	151
Romania 6.125% '44	USD	BB+/Ba1	16/1/2019	1,500	4.1	178	279
Russia 3.5% '19	USD	BB+/Ba1	24/6/2028	2,500	2.6	178	152
Russia 12.75% '28	USD	BB+/Ba1	16/9/2043	1,500	4.1	251	379
Russia 5.875% '43	USD	BB-/B1	25/2/2020	1,500	4.6	236	322
Serbia 4.875% '20	USD	BB-/B1	28/9/2021	2,000	3.6	268	249
Serbia 7.25% '21	USD	BBB-/Baa2	27/5/2019	2,000	3.8	260	279
S. Africa 6.875% '19	USD	BBB-/Baa2	16/9/2025	2,000	2.5	158	150
S. Africa 5.875% '25	USD	BBB-/Baa2	8/3/2041	750	4.2	261	295
S. Africa 6.25% '41	USD	NR/Baa3	5/6/2020	2,000	4.8	254	346
Turkey 7% '20	USD	NR/Baa3	5/2/2025	3,250	3.8	288	278
Turkey 7.375% '25	USD	NR/Baa3	15/1/2030	1,500	4.6	309	347
Turkey 11.875% '30	USD	NR/Baa3	14/2/2034	1,500	4.8	323	456
Turkey 8% '34	USD	NR/Baa3	14/1/2041	3,000	5.2	363	422
Turkey 6.75% '41	USD	B-/Caa3	1/9/2019	1,744	5.4	307	377
Ukraine 7.75% '19	USD	B-/Caa3	1/9/2023	1,355	7.7	678	650
Ukraine 7.75% '23	USD	BB/Ba2	15/1/2020	234	8.1	660	658

USD-Denominated Eurobond Spreads (September 5th 2016)



STOCK MARKETS PERFORMANCE. SEPTEMBER 5TH 2016

	2016								2015		2014	
	Local Currency Terms							EUR Terms	Local Currency Terms	EUR terms	Local Currency terms	EUR terms
	Level	1-week % change	1-month % change	YTD % change	1-year % change	Year-Low	Year-High	YTD % change	% change		% change	
Brazil (IBOV)	59,566	1.6	3.3	37.4	28.1	37,046	59,655	62.6	-13.3	-35.3	-2.9	-2.0
Bulgaria (SOFIX)	472	0.1	2.9	2.4	3.9	432	475	2.4	-11.7	-11.7	6.2	6.2
China (SHCOMP)	3,072	0.1	3.2	-14.0	-0.3	2,638	3,539	-18.0	9.4	16.5	52.9	69.5
Cyprus (CSE GI)	68	0.9	0.6	0.9	-12.5	64	70	0.9	-20.9	-20.9	-17.0	-17.0
Egypt (HERMES)	739	2.9	0.1	17.4	14.6	521	750	13.9	-24.4	-25.7	23.5	36.6
F.Y.R.O.M (MBI)	1,976	0.6	6.1	7.8	18.6	1,699	1,990	7.8	-0.6	-0.6	6.1	6.1
India (SENSEX)	28,532	2.3	1.6	9.9	14.6	22,495	28,582	7.2	-5.0	0.7	29.9	44.7
Romania (BET-BK)	1,316	0.9	4.5	-1.9	-1.5	1,150	1,329	-0.2	2.6	1.6	3.7	3.5
Russia (RTS)	4,575	2.1	5.3	15.5	19.6	3,509	4,583	27.6	30.3	9.5	-6.9	-37.4
Serbia (BELEX-15)	629	1.1	-1.2	-0.4	-1.6	570	647	-1.7	-3.4	-3.5	19.5	12.8
South Africa (FTSE/JSE)	53,622	0.1	2.4	5.5	9.8	45,976	54,704	12.0	1.9	-15.1	7.6	10.9
Turkey (ISE 100)	77,792	2.2	2.3	6.3	8.2	68,230	86,931	3.3	-16.3	-25.4	26.4	32.0
Ukraine (PFTS)	227	1.9	2.3	-5.7	-32.4	215	256	-17.5	-37.8	-54.8	28.7	-24.2
MSCI EMF	910	1.5	2.7	14.9	16.9	687	919	12.7	-17.0	-7.5	-4.6	8.2
MSCI EAFE	1,716	1.7	3.1	-0.7	2.2	1,492	1,717	-2.6	-3.3	7.7	-7.3	5.8
Greece (ASE-General)	578	3.0	2.8	-5.4	-11.8	421	659	-5.4	-23.6	-23.6	-28.9	-28.9
Germany (XETRA DAX)	10,672	1.2	2.9	-0.7	5.6	8,699	10,802	-0.7	-4.9	-4.9	2.7	2.7
UK (FTSE-100)	6,879	0.6	1.3	9.6	13.3	5,500	6,955	-3.5	-4.9	0.1	-2.7	4.1
Japan (NIKKEI-225)	17,038	1.8	4.8	-10.5	-4.6	14,864	18,951	2.3	9.1	20.2	7.1	7.0
USA (DJ INDUSTRIALS)	18,492	-0.1	-0.3	5.0	14.8	15,451	18,668	2.9	-2.2	9.3	7.5	22.2
USA (S&P 500)	2,180	0.0	-0.1	5.7	13.5	1,810	2,194	3.5	-0.7	10.9	11.4	26.6

Equity Indices (September 5th 2016)